

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | | |
|---|--|--|--|--|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name Village of Calumet | | County Houghton |
| Audit Date 2/28/05 | | Opinion Date 8/8/05 | | Date Accountant Report Submitted to State: 8/26/05 |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | ✓ | | |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

Certified Public Accountant (Firm Name)

Jackie A. Aalto, CPA

| | | | | |
|--|--|------------------------|------------------------|---------------------|
| Street Address 116 Fifth Street | | City Calumet | State MI | ZIP 49913 |
| Accountant Signature <i>Jackie A. Aalto</i> | | | Date 8/26/05 | |

VILLAGE OF CALUMET, MICHIGAN
Houghton County

FINANCIAL REPORT

Year ended February 28, 2005

VILLAGE OF CALUMET, MICHIGAN
FINANCIAL REPORT
Year ended February 28, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of Calumet, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Calumet, Michigan as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Calumet, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

Management has not included the Volunteer Firemen's Fund in the Village's financial statements. Accounting principles generally accepted in the United States of America require the Volunteer Firemen's Fund to be presented as a special revenue fund and financial information about the Volunteer Firemen's Fund to be part of the governmental activities, thus increasing that activity's assets, liabilities, revenues, and expenses, and changing its net assets. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the governmental activities is not reasonably determinable.

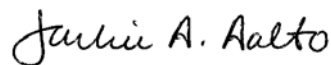
In my opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Village of Calumet, Michigan, as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended and interpreted, as of March 1, 2004.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 8, 2005, on my consideration of the Village of Calumet, Michigan’s internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing, of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management’s discussion and analysis and budgetary comparison information on pages 5 through 11 and 34 through 38, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Calumet, Michigan’s basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Jackie A. Aalto, CPA

August 8, 2005

VILLAGE OF CALUMET, MICHIGAN

Management's Discussion and Analysis

The management of the Village of Calumet, Michigan ("the Village") offers readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2005. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Village's financial activity. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements. Management provides three main topics for discussion and analysis. They are Financial Highlights, Overview of the Financial Statements, and Government-wide Financial Analysis.

Financial Highlights

- The assets of the Village exceeded its liabilities at the close of this fiscal year by \$546,335 (net assets). Governmental activities represented \$421,404 of this total, while business-type activities accounted for \$124,931 of this total.
- The Village's total net assets decreased by \$24,952.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$165,183, or 35% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or most of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include general government, public safety,

highways and streets, sanitation, economic development and culture and recreation. The business-type activity of the Village includes the operations of the water system improvement project.

The government-wide financial statements include not only the Village itself (known as the *primary government*), but also a legally separate Downtown Development Authority for which the Village is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 12 and 13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide statement, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains ten individual governmental funds. Information is presented separately in the government fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, Local Street Fund, Revolving Loan Fund and Sanitation Fund, all of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for the General Fund and each major special revenue fund to demonstrate compliance with the budgets.

The basic governmental fund financial statements can be found on pages 14 - 16 of this report.

Proprietary funds. The Village maintains one type of proprietary fund. The enterprise fund is used to report the same functions presented as *business-like activities* in the government-wide financial statements. The Village uses the enterprise fund to account for improvements to its water system.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Fund, which is considered to be a major fund of the Village.

The basic proprietary fund financial statements can be found on pages 17 - 19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Village has no fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 32 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* that explains and supports the information presented in the financial statements. This information can be found on pages 34 - 38 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining fund statements can be found on pages 40 and 41 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceed liabilities by \$546,335 at the close of the most recent fiscal year.

A large portion of the Village's net assets (47%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Village of Calumet, Michigan's Net Assets (in thousands of dollars)

| | Governmental Activities | Business-Type Activities | Business-Type Total |
|---|----------------------------|-----------------------------|------------------------|
| Current and other assets | \$ 334.3 | \$ 3.2 | \$ 337.5 |
| Capital assets | 255.9 | 121.7 | 377.6 |
| Total Assets | <u>590.2</u> | <u>124.9</u> | <u>715.1</u> |
| Long-term liabilities outstanding | 140.4 | | 140.4 |
| Other liabilities | 28.4 | | 28.4 |
| Total Liabilities | <u>168.8</u> | | <u>168.8</u> |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 135.9 | 121.7 | 257.6 |
| Restricted | 53.0 | | 53.0 |
| Unrestricted | 232.5 | 3.2 | 235.7 |
| Total Net Assets | <u>\$ 421.4</u> | <u>\$ 124.9</u> | <u>\$ 546.3</u> |

An additional portion of the Village's net assets (10%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$235,647) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Village is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

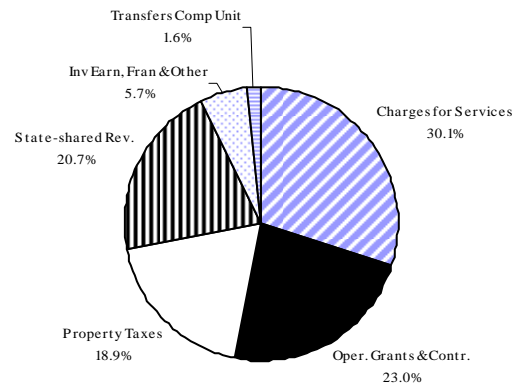
The Village's net assets decreased by \$24,952 during the current fiscal year. Governmental activities decreased the Village's net assets by \$20,191, thereby accounting for 81% of the total decrease in net assets of the Village. Business-type activities decreased the Village's net assets by \$4,761, thereby accounting for 19% of the total decrease in net assets of the Village. Key elements of this decrease are as follows:

Village of Calumet's Changes in Net Assets
(in thousands of dollars)

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|----------------------------------|------------------------------------|-------------------------------------|-----------------|
| Revenues: | | | |
| Program revenues: | | | |
| Charges for services | \$ 219.3 | \$ | \$ 219.3 |
| Operating grants & contributions | 167.1 | | 167.1 |
| General revenues: | | | |
| Property taxes | 137.4 | | 137.4 |
| State-shared revenues | 150.9 | | 150.9 |
| Other | 41.4 | | 41.4 |
| Transfers with component unit | <u>11.5</u> | <u></u> | <u>11.5</u> |
| Total Revenues | <u>727.6</u> | <u></u> | <u>727.6</u> |
| Expenses: | | | |
| General government | 156.5 | | 156.5 |
| Public safety | 178.0 | | 178.0 |
| Public works | 161.6 | 4.8 | 166.4 |
| Recreation & culture | 8.8 | | 8.8 |
| Highways & streets | 189.1 | | 189.1 |
| Sanitation | 46.2 | | 46.2 |
| Interest on long-term debt | <u>7.6</u> | <u></u> | <u>7.6</u> |
| Total Expenses | <u>747.8</u> | <u>4.8</u> | <u>752.6</u> |
| Decrease in net assets | (20.2) | (4.8) | (25.0) |
| Net Assets – Beginning of year | <u>441.6</u> | <u>129.7</u> | <u>571.3</u> |
| Net Assets – End of year | <u>\$ 421.4</u> | <u>\$ 124.9</u> | <u>\$ 546.3</u> |

The following two charts highlight the Village's governmental activities by revenues and expenses.

Revenues - Governmental Activities



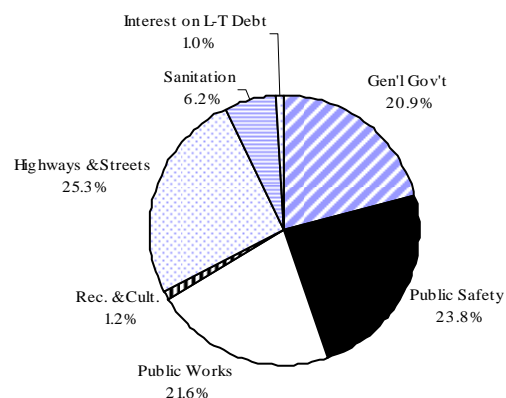
The most significant portion of the revenues for all governmental activities of the Village comes from Charges for Services. A significant portion of this revenue comes from internal equipment rentals. The other main source of this revenue is from sanitation fees charged to Village residents.

Operating Grants and Contributions are a major source of revenue. This figure includes Michigan Transportation Fund (Act 51) money for the Major and Local Street Funds.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the state sales tax. During the year, the amount of state shared revenue received by the Village trended downward, representing declining sales tax collections and discretionary cuts by the State in revenue sharing payments.

Property taxes are a major source of the revenue. The Village's operating millage was 21.4892, which includes 2.9292 mills for additional operating purposes. The Village's charter allows the Village to levy up to 12.5 mills for general operations, 5.0 mills for streets, and 3.0 mills for garbage. Due to State of Michigan statutes, the Village is at its maximum millage tax levy, and is unable to increase the millage without the approval of the voters.

Expenses - Governmental Activities



The most significant portion of the expenses for all governmental activities of the Village is for Highways & Streets. This is due to heavy snow removal activities. Public Works includes maintenance support activities for snow removal operations. Public Safety expenses include police and fire department operations and the General Government expenses represent village hall activities.

Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$257,413. Approximately 77% of this total amount (\$198,833) constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to pay debt service and for a variety of other purposes.

The General Fund is the chief operating fund of the Village. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$165,183, while total fund balance was \$174,073. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 35% of total General Fund expenditures, while total fund balance represents 37% of that same amount.

The fund balance of the Village's General Fund decreased by \$12,513 during the current fiscal year. Key elements of this decrease are a 3.7% decrease in state-shared revenues and an 11.1% increase in employee benefits.

Proprietary funds. The Village's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Net assets at the end of the year amounted to \$124,931. Of this amount, \$121,738 was invested in capital assets, net of related debt and \$3,193 was unrestricted.

General Fund Budgetary Highlights

During the year there was a \$26,684 decrease in appropriations between the original and final amended budget. The decrease was due to overall budget cuts made by the Village.

Capital Asset and Debt Administration

Capital Assets. The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2005, amounts to \$377,685 (net of accumulated depreciation). This investment in capital assets includes land, historical treasures, buildings, improvements, machinery and equipment, and park facilities. There were no major capital investments during the current fiscal year.

Village of Calumet, Michigan's Capital Assets
(net of depreciation)
(in thousands of dollars)

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|-------------------------------|------------------------------------|-------------------------------------|-----------------|
| Land | \$ 64.1 | \$ | \$ 64.1 |
| Historical treasure | 48.0 | | 48.0 |
| Buildings & site improvements | 8.1 | | 8.1 |
| Machinery & equipment | 133.6 | | 133.6 |
| Vehicles | 2.1 | | 2.1 |
| Water improvements | <u> </u> | <u>121.7</u> | <u>121.7</u> |
| Total Assets | <u>\$ 255.9</u> | <u>\$ 121.7</u> | <u>\$ 377.6</u> |

Additional information on the Village's capital assets can be found in note 4 on page 28 of this report.

Long-term debt. At the end of the current fiscal year, the Village had total debt of \$120,000. This total amount is backed by the full faith and credit of the government. The Village's total debt decreased by \$5,000 during the current fiscal year.

Additional information on the Village's long-term debt can be found in note 6 on page 30 of this report.

Request for Information

This financial report is intended to provide a general overview of the Village's finances for all those with an interest in the Village's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village of Calumet, PO Box 46, Calumet, Michigan 49913.

VILLAGE OF CALUMET, MICHIGAN

Statement of Net Assets

February 28, 2005

| | <u>Primary Government</u> | | | <u>Component Unit</u> |
|-----------------------------|---------------------------|----------------------|-------------------|-----------------------|
| | <u>Governmental</u> | <u>Business-Type</u> | | |
| | <u>Activities</u> | <u>Activities</u> | <u>Total</u> | <u>DDA</u> |
| Assets | | | | |
| Cash | \$ 162,287 | \$ 3,193 | \$ 165,480 | \$ 34,430 |
| Receivables, net | 166,417 | | 166,417 | 12,528 |
| Prepaid items | 3,612 | | 3,612 | |
| Inventory | 1,965 | | 1,965 | |
| Capital assets, net | <u>255,947</u> | <u>121,738</u> | <u>377,685</u> | <u>99,707</u> |
| Total Assets | <u>590,228</u> | <u>124,931</u> | <u>715,159</u> | <u>146,665</u> |
| Liabilities | | | | |
| Accounts payable & other | | | | |
| current liabilities | 28,406 | | 28,406 | 5,974 |
| Noncurrent liabilities: | | | | |
| Due within one year | 5,000 | | 5,000 | |
| Due in more than one year | <u>135,418</u> | | <u>135,418</u> | |
| Total Liabilities | <u>168,824</u> | | <u>168,824</u> | <u>5,974</u> |
| Net Assets | | | | |
| Invested in capital assets, | | | | |
| net of related debt | 135,947 | 121,738 | 257,685 | 99,707 |
| Restricted for: | | | | |
| Historic preservation | 5,278 | | 5,278 | |
| Highways & streets | 47,500 | | 47,500 | |
| Debt service | 225 | | 225 | |
| Unrestricted | <u>232,454</u> | <u>3,193</u> | <u>235,647</u> | <u>40,984</u> |
| Total Net Assets | <u>\$ 421,404</u> | <u>\$ 124,931</u> | <u>\$ 546,335</u> | <u>\$ 140,691</u> |

VILLAGE OF CALUMET, MICHIGAN

Statement of Activities

February 28, 2005

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|--------------------------------------|-------------------|----------------------|--------------------------|--------------------------|---|--------------------------|-------------------|-------------------|
| | | | Operating | Capital | Primary Government | | | Component Unit |
| Functions/Programs | Expenses | Charges for Services | Grants and Contributions | Grants and Contributions | Governmental Activities | Business-Type Activities | Total | DDA |
| Primary Government: | | | | | | | | |
| Government Activities | | | | | | | | |
| General government | \$ 156,468 | \$ 225 | \$ | \$ | \$ (156,243) | \$ | \$ (156,243) | \$ |
| Public safety | 177,992 | 933 | 25,384 | | (151,675) | | (151,675) | |
| Public works | 161,643 | 63,939 | | | (97,704) | | (97,704) | |
| Recreation & culture | 8,840 | 400 | | | (8,440) | | (8,440) | |
| Highways & streets | 189,100 | 126,368 | 141,733 | | 79,001 | | 79,001 | |
| Sanitation | 46,193 | 27,397 | | | (18,796) | | (18,796) | |
| Interest on long-term debt | <u>7,631</u> | | | | <u>(7,631)</u> | | <u>(7,631)</u> | |
| Total Government Activities | <u>747,867</u> | <u>219,262</u> | <u>167,117</u> | | <u>(361,488)</u> | | <u>(361,488)</u> | |
| Business-Type Activities | | | | | | | | |
| Water | <u>4,770</u> | <u>9</u> | | | | <u>(4,761)</u> | <u>(4,761)</u> | |
| Total Primary Government | <u>\$ 752,637</u> | <u>\$ 219,271</u> | <u>\$ 167,117</u> | <u>\$</u> | <u>(361,488)</u> | <u>(4,761)</u> | <u>(366,249)</u> | |
| Component Unit: | | | | | | | | |
| DDA District | <u>\$ 24,251</u> | <u>\$</u> | <u>\$ 26,970</u> | <u>\$</u> | | | | <u>2,719</u> |
| | | | | | | | | |
| General Revenues | | | | | | | | |
| Property taxes | | | | | 137,494 | | 137,494 | 40,062 |
| State-shared revenues | | | | | 150,928 | | 150,928 | |
| Unrestricted investment earnings | | | | | 1,934 | | 1,934 | 452 |
| Franchise fees | | | | | 2,970 | | 2,970 | |
| Other | | | | | 36,471 | | 36,471 | |
| Transfers with component units | | | | | <u>11,500</u> | | <u>11,500</u> | |
| Total General Revenues and Transfers | | | | | <u>341,297</u> | | <u>341,297</u> | <u>40,514</u> |
| Change in Net Assets | | | | | (20,191) | (4,761) | (24,952) | 43,233 |
| Net Assets – Beginning of year | | | | | <u>441,595</u> | <u>129,692</u> | <u>571,287</u> | <u>97,458</u> |
| Net Assets – End of year | | | | | <u>\$ 421,404</u> | <u>\$ 124,931</u> | <u>\$ 546,335</u> | <u>\$ 140,691</u> |

The notes to the financial statements are an integral part of this statement.

VILLAGE OF CALUMET, MICHIGAN

Balance Sheet Governmental Funds

February 28, 2005

| | General | Major Street | Local Street | Revolving Loan | Sanitation | Nonmajor Governmental Funds | Total |
|--|-------------------|------------------|------------------|-------------------|------------------|-----------------------------------|-------------------|
| Assets | | | | | | | |
| Cash | \$ 12,704 | \$ 42,991 | \$ 39,764 | \$ 7,137 | \$ 24,181 | \$ 35,510 | \$ 162,287 |
| Receivables (net): | | | | | | | |
| Current tax levy | 20,849 | | | | 3,848 | 6,414 | 31,111 |
| Delinquent taxes | 714 | | | | 132 | 219 | 1,065 |
| Accounts | 13,865 | | | | 15,627 | 5,944 | 35,436 |
| Due from other funds | 126,589 | | | | | 3 | 126,592 |
| Due from other governmental units | 34,231 | 46,283 | 18,291 | | | | 98,805 |
| Prepaid items | 3,612 | | | | | | 3,612 |
| Inventory | | | | | | 1,965 | 1,965 |
| Total Assets | <u>\$ 212,564</u> | <u>\$ 89,274</u> | <u>\$ 58,055</u> | <u>\$ 7,137</u> | <u>\$ 43,788</u> | <u>\$ 50,055</u> | <u>\$ 460,873</u> |
| Liabilities and Fund Balances | | | | | | | |
| Liabilities | | | | | | | |
| Accounts payable | \$ 8,929 | \$ 8,337 | \$ 3,210 | \$ | \$ 2,508 | \$ 131 | \$ 23,115 |
| Accrued liabilities | 4,407 | 678 | 206 | | | | 5,291 |
| Due to other funds | | 57,090 | 42,101 | | 27,398 | 3 | 126,592 |
| Deferred revenues: | | | | | | | |
| Taxes | 21,385 | | | | 3,947 | 6,578 | 31,910 |
| Other | 3,770 | | | | 12,782 | | 16,552 |
| Total Liabilities | <u>38,491</u> | <u>66,105</u> | <u>45,517</u> | | <u>46,635</u> | <u>6,712</u> | <u>203,460</u> |
| Fund Balances | | | | | | | |
| Reserved for: | | | | | | | |
| Prepaid items | 3,612 | | | | | | 3,612 |
| Historic preservation | 5,278 | | | | | | 5,278 |
| Highways & streets | | 23,169 | 12,538 | | | 11,793 | 47,500 |
| Inventory | | | | | | 1,965 | 1,965 |
| Debt service | | | | | | 225 | 225 |
| Unreserved (major funds) | 165,183 | | | 7,137 | (2,847) | | 169,473 |
| Unreserved (nonmajor funds) | | | | | | | |
| Special revenue funds | | | | | | 29,360 | 29,360 |
| Total Fund Balances | <u>174,073</u> | <u>23,169</u> | <u>12,538</u> | <u>7,137</u> | <u>(2,847)</u> | <u>43,343</u> | <u>257,413</u> |
| Total Liabilities and Fund Balances | <u>\$ 212,564</u> | <u>\$ 89,274</u> | <u>\$ 58,055</u> | <u>\$ 7,137</u> | <u>\$ 43,788</u> | <u>\$ 50,055</u> | |

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|--|------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 255,947 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 48,462 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | <u>(140,418)</u> |

Net assets of governmental activities \$ 421,404

The notes to the financial statements are an integral part of this statement.

VILLAGE OF CALUMET, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds**

Year ended February 28, 2005

| | <u>General</u> | <u>Major Street</u> | <u>Local Street</u> | <u>Revolving Loan</u> | <u>Sanitation</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|--|-------------------|-------------------------|-------------------------|---------------------------|-------------------|--|-----------------|
| Revenues | | | | | | | |
| Taxes | \$ 85,008 | \$ | \$ | \$ | \$ 15,393 | \$ 34,100 | \$ 134,501 |
| Licenses & permits | 1,956 | | | | | | 1,956 |
| Intergovernmental revenue | | | | | | | |
| Federal | 25,384 | | | | | | 25,384 |
| State | 147,158 | 110,992 | 30,741 | | | | 288,891 |
| Charges for services | 46,070 | | | | 29,005 | 225 | 75,300 |
| Fines & forfeits | 7,251 | | | | | | 7,251 |
| Interest & rents | 139,564 | 551 | 354 | 211 | 75 | 512 | 141,267 |
| Other revenues | 30,527 | | | | | 5,944 | 36,471 |
| Total Revenues | <u>482,918</u> | <u>111,543</u> | <u>31,095</u> | <u>211</u> | <u>44,473</u> | <u>40,781</u> | <u>711,021</u> |
| Expenditures | | | | | | | |
| Current | | | | | | | |
| General government | 84,395 | 290 | 260 | 50 | 1,385 | 4,962 | 91,342 |
| Public safety | 110,391 | | | | | | 110,391 |
| Public works | 96,193 | | | | | 6,815 | 103,008 |
| Highways & streets | | 137,138 | 44,512 | | | 7,450 | 189,100 |
| Sanitation | | | | | 46,193 | | 46,193 |
| Recreation & culture | 11,428 | | | | | | 11,428 |
| Other | 166,524 | | | | | | 166,524 |
| Debt service | | | | | | | |
| Principal | | | | | | 7,981 | 7,981 |
| Interest | | | | | | 7,631 | 7,631 |
| Total Expenditures | <u>468,931</u> | <u>137,428</u> | <u>44,772</u> | <u>50</u> | <u>47,578</u> | <u>34,839</u> | <u>733,598</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>13,987</u> | <u>(25,885)</u> | <u>(13,677)</u> | <u>161</u> | <u>(3,105)</u> | <u>5,942</u> | <u>(22,577)</u> |
| Other Financing Sources (Uses) | | | | | | | |
| Transfers in | | 35,000 | 13,000 | | 10,000 | 22,367 | 80,367 |
| Transfers out | (26,500) | (2,583) | | | | (39,784) | (68,867) |
| Total Other Financing Sources (Uses) | <u>(26,500)</u> | <u>32,417</u> | <u>13,000</u> | | <u>10,000</u> | <u>(17,417)</u> | <u>11,500</u> |
| Net Change in Fund Balances | (12,513) | 6,532 | (677) | 161 | 6,895 | (11,475) | (11,077) |
| Fund Balances – Beginning of year | <u>186,586</u> | <u>16,637</u> | <u>13,215</u> | <u>6,976</u> | <u>(9,742)</u> | <u>54,818</u> | |
| Fund Balances – End of year | <u>\$ 174,073</u> | <u>\$ 23,169</u> | <u>\$ 12,538</u> | <u>\$ 7,137</u> | <u>\$ (2,847)</u> | <u>\$ 43,343</u> | |

VILLAGE OF CALUMET, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances (Continued) Governmental Funds

Year ended February 28, 2005

| | <u>General</u> | <u>Major Street</u> | <u>Local Street</u> | <u>Revolving Loan</u> | <u>Sanitation</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|---|----------------|-------------------------|-------------------------|---------------------------|-------------------|--|--------------------|
| Amounts reported for governmental activities in the statement of activities are different because: | | | | | | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. | | | | | | | (21,375) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. | | | | | | | 5,155 |
| Repayments of debt principal are expenditures in the governmental funds, but not in the statement of activities. | | | | | | | 7,981 |
| Change in accumulated compensated absences is recorded when earned in the statement of activities. | | | | | | | <u>(875)</u> |
| Change in Net Assets of Governmental Activities | | | | | | | <u>\$ (20,191)</u> |

The notes to the financial statements are an integral part of this statement.

VILLAGE OF CALUMET, MICHIGAN

**Statement of Net Assets
Proprietary Fund**

February 28, 2005

| | |
|---|------------------------------------|
| | <u>Enterprise – Water Fund</u> |
| Assets | |
| Current Assets: | |
| Cash | \$ 3,193 |
| Noncurrent Assets: | |
| Capital assets, net | <u>121,738</u> |
| Total Assets | <u>124,931</u> |
| Liabilities | |
| Net Assets | |
| Invested in capital assets, net of related debt | 121,738 |
| Unrestricted | <u>3,193</u> |
| Total Net Assets | <u>\$ 124,931</u> |

The notes to the financial statements are an integral part of this statement.

VILLAGE OF CALUMET, MICHIGAN

**Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund**

Year ended February 28, 2005

| | <u>Enterprise – Water Fund</u> |
|---|------------------------------------|
| Operating Revenues | |
| Charges for services | \$ <u>9</u> |
| Operating Expenses | |
| Administration | 500 |
| Depreciation | <u>4,270</u> |
| Total Operating Expenses | <u>4,770</u> |
| Operating Loss | (4,761) |
| Nonoperating Revenues (Expenses) | |
| Interest income | <u>34</u> |
| Changes in Net Assets | (4,727) |
| Net Assets – Beginning of year | <u>129,658</u> |
| Net Assets – End of year | <u>\$ 124,931</u> |

The notes to the financial statements are an integral part of this financial statement.

VILLAGE OF CALUMET, MICHIGAN

**Statement of Cash Flows
Proprietary Fund**

Year ended February 28, 2005

| | |
|---|------------------------------------|
| | <u>Enterprise – Water Fund</u> |
| Cash Flows from Operating Activities | |
| Receipts from customers | \$ 95 |
| Payments to suppliers | <u> (500)</u> |
| Net cash used by operating activities | (405) |
| Cash Flows from Investing Activities | |
| Interest | <u> 34</u> |
| Net decrease in cash | (371) |
| Cash – Beginning of year | <u> 3,564</u> |
| Cash – End of year | <u><u> \$ 3,193</u></u> |
| Reconciliation of operating loss to net cash used by operating activities: | |
| Operating loss | \$ (4,761) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | |
| Depreciation | 4,270 |
| Changes in assets and liabilities: | |
| Receivables | <u> 86</u> |
| Net cash used by operating activities | <u><u> \$ (405)</u></u> |

The notes to the financial statements are an integral part of this statement.

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 28, 2005

Note 1 Summary of Significant Accounting Policies

The accounting policies of the Village of Calumet, Michigan (“the Village”) conform to accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village.

Implementation of GASB Statement No. 34

The aspects of financial statement content and format, as prescribed by Governmental Accounting Standards Board (“GASB”) Statement No. 34 have been implemented in the financial statements, effective for the year ended February 28, 2005.

The primary changes from the prior years’ financial presentations include:

- The addition of a Management’s Discussion and Analysis as required supplementary information.
- A new format for the Village’s basic financial statements including a government-wide Statement of Net Assets and Statement of Activities, in addition to fund financial statements, with emphasis on major funds, for governmental and proprietary activities.
- The reporting of budget and actual information for the General Fund and each major special revenue fund in a new format as required supplementary information.
- Beginning net assets reported in government-wide financial statements will differ from the amounts reported as ending fund equity in the prior year financial statements due to this implementation.
- The change to the direct method of reporting cash flows from operations in the proprietary fund financial statements.

A. Reporting Entity

The Village of Calumet, Michigan was incorporated in 1875. The Village is governed by an elected seven member council consisting of a president and six trustees. The Village provides services to its residents in many areas including law enforcement, fire protection, street maintenance, sanitation, recreation and community enrichment. The accompanying financial statements present the government and its component unit, an entity, for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 28, 2005

Discretely Presented Component Unit - GASB Statement No. 14, *The Financial Reporting Entity*, as amended, contains the standards for defining the governmental financial reporting entity and for identifying which legally separate entities are component units that should be included with another government (usually a primary government) in a financial reporting entity's financial statements. Requirements for including component units are based primarily on the concept of financial accountability. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Village has one component unit.

The component unit column in the government-wide financial statements includes the financial data of the Downtown Development Authority ("DDA") established in 1992 by the Village under provisions of Act 197, P.A. of 1975 as amended (MCL 125.1651). It is governed by a nine member board appointed by the Village's governing board. The DDA adopted a development and tax increment financing plan in 1992 to provide tax increment revenues to pay for improvements within the DDA district. The DDA is presented as a governmental fund type. Financial statement details of the component unit can be obtained from the Village's office.

Jointly Governed Organization – The Village, in conjunction with three other governmental entities, created the North Houghton County Water & Sewage Authority ("the Authority") to provide wastewater collection, transmission and treatment. The Authority's board is comprised of seven members, one of which is from the Village. The Authority's board has control over its own budgeting and financing obligations. All of the financial operations of the Authority are recorded in the records of the Authority. It is expected that the revenues generated from the Authority system users will be adequate to operate the sewage system and pay back the related construction debt and interest of the Authority. Separately issued financial statements are available from the Authority.

Other – An association which meets certain criteria for including its financial activity in the Village's basic financial statements is the Volunteer Firemen's Fund. Since the Volunteer Firemen's Fund is not a separate legal entity, and money raised thereof is done in the name of the Village, the financial activity of the fund should be a part of the Village reporting entity.

See Note 9 for information pertaining to a related organization.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 28, 2005

activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. The Village has no fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 28, 2005

The Village reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The *Local Street Fund* accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

The *Revolving Loan Fund* accounts for low-interest loans to Village businesses.

The *Sanitation Fund* accounts for the activities of the Village's garbage removal operations.

The Village reports the following major proprietary funds:

The *Water Fund* accounts for the activity of water system improvement projects to the Village's water mains.

Additionally, the Village reports the following nonmajor governmental funds: Municipal Street, Public Improvement, Replacement and Maintenance, Federal/State Grants, Historic District Commission and Debt Service.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's sanitation function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 28, 2005

grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village's enterprise fund are charges to customers for services. Operating expenses for the enterprise fund include administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits – Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Village did not have any short-term investments at February 28, 2005.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on September 15th, at which time penalties and interest are assessed.

It is the Village's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 taxable valuation of the Village totaled \$7,065,236, on which ad valorem taxes levied consisted of 11.3173 mills for operating purposes, 2.9292 mills for additional operating purposes, 4.5267 mills for street maintenance, and 2.7160 mills for garbage

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 28, 2005

removal. This resulted in \$100,787 for operating, \$32,023 for street maintenance, and \$19,213 for garbage removal. These amounts are recognized in the respective General and Special Revenue Fund financial statements as taxes receivable – current or as tax revenue. The Village also levied 1.3227 mills on property owners within the Downtown Development Authority district. This resulted in \$4,695. The DDA financial activity is recorded in the DDA Fund and is presented in the financial statements as a discretely presented component unit.

Inventories and Prepaid Items – All inventories are valued at cost using the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

Prior to March 1, 2004, governmental funds' infrastructure assets were not capitalized. Infrastructure assets acquired since March 1, 2004 will be recorded at cost. However, no such assets were acquired from March 1, 2004 to February 28, 2005.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was capitalized as part of the cost of assets under construction.

Property, plant and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|--------------------------------|----------------|
| Buildings | 40 to 60 years |
| Site Improvements | 10 to 15 years |
| Water Lines | 35 to 80 years |
| Infrastructure | 15 to 30 years |
| Vehicles | 5 to 25 years |
| Office Equipment & Furnishings | 10 to 15 years |

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 28, 2005

Compensated Absences (Vacation and Sick Leave) – It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except for the Federal/State Grants Fund, which adopts a project-length budget. All annual appropriations lapse at fiscal year end.

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 28, 2005

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (i.e., the level of which expenditures may not legally exceed appropriations) is the activity level. Encumbrance accounting is not employed in the governmental funds.

Expenditures did not exceed appropriations in any of the funds.

B. Fund Deficits

The Village has an accumulated fund balance deficit in the Sanitation Fund of \$2,847. The Village has increased its charges for this service to eliminate the deficit.

Note 3 Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village has designated five banks for the deposit of Village funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997. The Village's deposits and investment policy are in accordance with statutory authority.

At year-end, the Village's deposits were reported in the basic financial statements in the following categories (the Village has no investments):

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total Primary Government</u> | <u>Component Unit</u> |
|------|------------------------------------|-------------------------------------|---|---------------------------|
| Cash | <u>\$ 162,287</u> | <u>\$ 3,193</u> | <u>\$ 165,480</u> | <u>\$ 34,430</u> |

The breakdown between deposits is as follows:

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 28, 2005

| | <u>Primary Government</u> | <u>Component Unit</u> |
|---|-------------------------------|---------------------------|
| Bank deposits (checking and savings accounts) | \$ 165,380 | \$ 34,430 |
| Petty cash and cash on hand | <u>100</u> | <u></u> |
| Total | <u>\$ 165,480</u> | <u>\$ 34,430</u> |

The bank balance of the primary government's deposits is \$169,588, of which \$110,613 is covered by federal depository insurance and \$58,975 is uninsured. The bank balance of the component unit's deposits is \$34,430, all of which is covered by federal depository insurance.

Note 4 Capital Assets

Capital asset activity of the primary government for the year ended February 28, 2005 was as follows:

Primary Government

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|--------------------|------------------|---------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 64,094 | \$ | \$ | \$ 64,094 |
| Historical treasure | <u>48,000</u> | <u></u> | <u></u> | <u>48,000</u> |
| Subtotal | <u>112,094</u> | <u></u> | <u></u> | <u>112,094</u> |
| Capital assets being depreciated: | | | | |
| Buildings & site improvements | 116,353 | | | 116,353 |
| Machinery & equipment | 539,765 | | | 539,765 |
| Vehicles | <u>20,700</u> | <u></u> | <u></u> | <u>20,700</u> |
| Subtotal | <u>676,818</u> | <u></u> | <u></u> | <u>676,818</u> |
| Accumulated depreciation: | | | | |
| Building & site improvements | (106,564) | (1,687) | | (108,251) |
| Machinery & equipment | (390,536) | (15,548) | | (406,084) |
| Vehicles | <u>(14,490)</u> | <u>(4,140)</u> | <u></u> | <u>(18,630)</u> |
| Subtotal | <u>(511,590)</u> | <u>(21,375)</u> | <u></u> | <u>(532,965)</u> |
| Net capital assets being depreciated | <u>165,228</u> | <u>(21,375)</u> | <u></u> | <u>143,853</u> |
| Governmental activities net capital assets | <u>\$ 277,322</u> | <u>\$ (21,375)</u> | <u>\$</u> | <u>\$ 255,947</u> |

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 28, 2005

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|-------------------|------------------|---------------------------|
| Business-Type Activities | | | | |
| Capital assets not being depreciated | \$ _____ | \$ _____ | \$ _____ | \$ _____ |
| Capital assets being depreciated: | | | | |
| Water system improvements | 213,513 | | | 213,513 |
| Accumulated depreciation: | | | | |
| Water system improvements | <u>(87,505)</u> | <u>(4,270)</u> | | <u>(91,775)</u> |
| Net capital assets being depreciated | <u>126,008</u> | <u>(4,270)</u> | | <u>121,738</u> |
| Business-type activities net capital assets | <u>\$ 126,008</u> | <u>\$ (4,270)</u> | <u>\$ _____</u> | <u>\$ 121,738</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities

| | |
|----------------------|--------------|
| Public safety | \$ 6,300 |
| Public works | 13,605 |
| Recreation & culture | <u>1,470</u> |

| | |
|--|------------------|
| Total depreciation expense - governmental activities | <u>\$ 21,375</u> |
|--|------------------|

Business-Type Activities

| | |
|-------|-----------------|
| Water | <u>\$ 4,270</u> |
|-------|-----------------|

Discretely Presented Component Unit

Activity for the Downtown Development Authority for the year ended February 28, 2005 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--------------------------------------|------------------------------|------------------|------------------|---------------------------|
| Capital assets not being depreciated | | | | |
| Construction in progress | <u>\$ 35,562</u> | <u>\$ 64,145</u> | <u>\$ _____</u> | <u>\$ 99,707</u> |

Note 5 Interfund Receivables, Payables and Transfers

The composition of interfund balances and transfers as of February 28, 2005, is as follows:

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 28, 2005

Interfund Balances

| Due to/from other funds: | | |
|---|----------------------|-------------------|
| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
| Due To/From Other Funds | | |
| General | Major Street | \$ 57,090 |
| | Local Street | 42,101 |
| | Sanitation | 27,398 |
| Public Improvement Replacement and Maintenance | Federal/State Grants | <u>3</u> |
| Total | | <u>\$ 126,592</u> |

Interfund Transfers

| | <u>Transfers (Out)</u> | | | |
|------------------------------|------------------------|---------------------|-------------------------------|--|
| | <u>General</u> | <u>Major Street</u> | <u>Non-Major Governmental</u> | <u>Total Primary Government Component Unit</u> |
| Transfers In: | | | | |
| Governmental Funds | | | | |
| Major Street | \$ 15,000 | \$ | \$ 20,000 | \$ 35,000 |
| Local Street | | | 13,000 | 13,000 |
| Sanitation | 10,000 | | | 10,000 |
| Non-Major Governmental Funds | <u>1,500</u> | <u>2,583</u> | <u>6,784</u> | <u>10,867</u> |
| Total | <u>\$ 26,500</u> | <u>\$ 2,583</u> | <u>\$ 39,784</u> | <u>\$ 68,867</u> |
| | | | | <u>\$ 11,500</u> |

Note 6 Long-Term Debt

General obligation bonds and loans are direct obligations and pledge the full faith and credit of the Village. Contractual agreements and installment purchase agreements are also general obligations of the Village.

Bond and contractual activity can be summarized as follows:

| | <u>Interest Rate</u> | <u>Principal Matures</u> | <u>Beginning Balance</u> | <u>Additions (Reductions)</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|-------------------------------|----------------------|--------------------------|--------------------------|-------------------------------|-----------------------|----------------------------|
| Governmental Activities | | | | | | |
| General Obligations Bonds | | | | | | |
| \$160,000 1997 Michigan | | | | | | |
| Transportation Fund Bond Loan | 6.00% | 10-1-2016 | \$ 125,000 | \$ (5,000) | \$ 120,000 | \$ 5,000 |
| Other Long-Term Obligations | | | | | | |
| Compensated absences | | | <u>19,543</u> | <u>875</u> | <u>20,418</u> | |
| Total Governmental Activities | | | <u>\$ 144,543</u> | <u>\$ (4,125)</u> | <u>\$ 140,418</u> | <u>\$ 5,000</u> |

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 28, 2005

Annual debt service requirements to maturity for the above obligations are as follows:

| <u>Year End February 28.</u> | <u>Governmental Activities</u> | |
|------------------------------|--------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2006 | \$ 5,000 | \$ 7,200 |
| 2007 | 5,000 | 6,900 |
| 2008 | 5,000 | 6,600 |
| 2009 | 10,000 | 6,300 |
| 2010 | 10,000 | 5,700 |
| 2011-2015 | 55,000 | 19,500 |
| 2016-2017 | <u>30,000</u> | <u>2,700</u> |
| Total | <u>\$ 120,000</u> | <u>\$ 54,900</u> |

During the current fiscal year the Village paid \$7,631 in interest expense. The entire amount was expensed.

Note 7 Lease Agreement

The water line lease and operating agreement between the Village of Calumet, Michigan and Michigan-American Water Company is dated October 1, 1983. Annual rental is based on 10 % of the revenue generated by Michigan-American Water Company from Village residents. This rental income is recorded in the General Fund and amounts to \$9,594 for the year ended February 28, 2005.

Note 8 Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. All risk of loss is covered by commercial insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 Related Organization

The Calumet Housing Commission ("the Commission") is a related organization which is excluded from the financial reporting entity because the Village's accountability does not extend beyond making appointments. The Commission provides low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development. The Village has no influence over the management, budget or policies of the Commission. The Commission reports independently and a copy of its audited financial statement is available from them.

VILLAGE OF CALUMET, MICHIGAN

Notes to Financial Statements

February 28, 2005

Note 10 Employee Retirement and Benefit Systems

The Village funds a simplified employee pension plan for its unionized employees, which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investments of those contributions.

As established by the Village, only unionized employees are eligible to participate. The Village contributes to the individual retirement accounts, of those eligible, a percentage of their gross compensation ranging from 1% after 1 year of service up to 10% after 10 years and 4% after 4 years of service up to 10% after 10 years for the police and public works departments, respectively. Contributions vest 100% immediately. Pension costs amounted to \$8,555 for the year ended February 28, 2005.

Note 11 Subsequent Event

In June 2005 the Village received a \$353,625 Community Development Block Grant for a Fifth Street brick project. This project is being done in conjunction with the Michigan Department of Transportation. The total estimated project cost is \$636,900. The balance of the project will be funded through the Michigan Department of Transportation's 2005 Small Urban Program.

In July 2005 the Village received a \$223,418 Community Development Block Grant award on a \$253,418 Oak Street rehabilitation project. The balance of the project will come from Village funds.

Note 12 Commitment and Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Required Supplementary Information

VILLAGE OF CALUMET, MICHIGAN

Budgetary Comparison Schedule General Fund Year ended February 28, 2005

| | <u>Budgeted Amounts</u> | | | Variance With |
|---------------------------------------|-------------------------|-------------------|-------------------|---------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | <u>Final Budget</u> |
| Beginning Budgetary Fund Balance | \$ 186,586 | \$ 186,586 | \$ 186,586 | \$ |
| Resources (Inflows): | | | | |
| Taxes | 84,141 | 87,962 | 85,008 | (2,954) |
| Licenses & permits | 1,000 | 1,900 | 1,956 | 56 |
| Intergovernmental revenue | | | | |
| Federal | 16,100 | 25,752 | 25,384 | (368) |
| State | 155,859 | 148,699 | 147,158 | (1,541) |
| Charges for services | 30,000 | 28,800 | 46,070 | 17,270 |
| Fines & forfeits | 17,000 | 18,750 | 7,251 | (11,499) |
| Interest & rents | 128,400 | 129,230 | 139,564 | 10,334 |
| Other revenues | <u>18,000</u> | <u>28,539</u> | <u>30,527</u> | <u>1,988</u> |
| Amounts Available for Appropriation | <u>637,086</u> | <u>656,218</u> | <u>669,504</u> | <u>13,286</u> |
| Charges to Appropriations (Outflows): | | | | |
| General government | 84,200 | 86,026 | 84,395 | 1,631 |
| Public safety | 119,978 | 113,471 | 110,391 | 3,080 |
| Public works | 94,350 | 104,965 | 96,193 | 8,772 |
| Recreation & culture | 11,700 | 11,731 | 11,428 | 303 |
| Other | 174,326 | 166,877 | 166,524 | 353 |
| Transfers to other funds | <u>51,700</u> | <u>26,500</u> | <u>26,500</u> | |
| Total Charges to Appropriations | <u>536,254</u> | <u>509,570</u> | <u>495,431</u> | <u>14,139</u> |
| Ending Budgetary Fund Balance | <u>\$ 100,832</u> | <u>\$ 146,648</u> | <u>\$ 174,073</u> | <u>\$ 27,425</u> |

VILLAGE OF CALUMET, MICHIGAN

**Budgetary Comparison Schedule
Major Street Fund
Year ended February 28, 2005**

| | <u>Budgeted Amounts</u> | | | Variance With |
|---------------------------------------|-------------------------|-----------------|------------------|---------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | <u>Final Budget</u> |
| Beginning Budgetary Fund Balance | \$ 16,637 | \$ 16,637 | \$ 16,637 | \$ |
| Resources (Inflows): | | | | |
| Intergovernmental revenue - State | 107,500 | 107,720 | 110,992 | 3,272 |
| Interest | 800 | 540 | 551 | 11 |
| Transfers from other funds | <u>30,200</u> | <u>35,000</u> | <u>35,000</u> | <u> </u> |
| Amounts Available for Appropriation | <u>155,137</u> | <u>159,897</u> | <u>163,180</u> | <u>3,283</u> |
| Charges to Appropriations (Outflows): | | | | |
| General government | 1,000 | 500 | 290 | 210 |
| Highways & streets | 129,400 | 153,993 | 137,138 | 16,855 |
| Transfers to other funds | <u>2,586</u> | <u>2,583</u> | <u>2,583</u> | <u> </u> |
| Total Charges to Appropriations | <u>132,986</u> | <u>157,076</u> | <u>140,011</u> | <u>17,065</u> |
| Ending Budgetary Fund Balance | <u>\$ 22,151</u> | <u>\$ 2,821</u> | <u>\$ 23,169</u> | <u>\$ 20,348</u> |

VILLAGE OF CALUMET, MICHIGAN

Budgetary Comparison Schedule Local Street Fund Year ended February 28, 2005

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance With <u>Final Budget</u> |
|---------------------------------------|-------------------------|-----------------|------------------|--------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Beginning Budgetary Fund Balance | \$ 13,215 | \$ 13,215 | \$ 13,215 | \$ |
| Resources (Inflows): | | | | |
| Intergovernmental revenue - State | 29,400 | 28,952 | 30,741 | 1,789 |
| Interest | 300 | 354 | 354 | |
| Transfers from other funds | <u>25,000</u> | <u>13,000</u> | <u>13,000</u> | |
| Amounts Available for Appropriation | <u>67,915</u> | <u>55,521</u> | <u>57,310</u> | <u>1,789</u> |
| Charges to Appropriations (Outflows): | | | | |
| General government | 1,000 | 800 | 260 | 540 |
| Highways & streets | <u>51,000</u> | <u>51,510</u> | <u>44,512</u> | <u>6,998</u> |
| Total Charges to Appropriations | <u>52,000</u> | <u>52,310</u> | <u>44,772</u> | <u>7,538</u> |
| Ending Budgetary Bund Balance | <u>\$ 15,915</u> | <u>\$ 3,211</u> | <u>\$ 12,538</u> | <u>\$ 9,327</u> |

VILLAGE OF CALUMET, MICHIGAN

**Budgetary Comparison Schedule
Revolving Loan Fund
Year ended February 28, 2005**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance With <u>Final Budget</u> |
|---------------------------------------|-------------------------|-----------------|-----------------|--------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Beginning Budgetary Fund Balance | \$ 6,976 | \$ 6,976 | \$ 6,976 | \$ |
| Resources (Inflows): | | | | |
| Interest | <u>105</u> | <u>1,460</u> | <u>211</u> | <u>(1,249)</u> |
| Amounts Available for Appropriation | 7,081 | 8,436 | 7,187 | (1,249) |
| Charges to Appropriations (Outflows): | | | | |
| General government | <u>50</u> | <u>140</u> | <u>50</u> | <u>90</u> |
| Ending Budgetary Fund Balance | <u>\$ 7,031</u> | <u>\$ 8,296</u> | <u>\$ 7,137</u> | <u>\$ (1,159)</u> |

VILLAGE OF CALUMET, MICHIGAN

Budgetary Comparison Schedule Sanitation Fund Year ended February 28, 2005

| | <u>Budgeted Amounts</u> | | | Variance With |
|---------------------------------------|-------------------------|-------------------|-------------------|---------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | <u>Final Budget</u> |
| Beginning Budgetary Fund Balance | \$ (9,742) | \$ (9,742) | \$ (9,742) | \$ |
| Resources (Inflows): | | | | |
| Taxes | 17,300 | 18,418 | 15,393 | (3,025) |
| Charges for services | 27,000 | 24,996 | 29,005 | 4,009 |
| Interest | 70 | 75 | 75 | |
| Transfers from other funds | <u> </u> | <u>10,000</u> | <u>10,000</u> | <u> </u> |
| Amounts Available for Appropriation | <u>34,628</u> | <u>43,747</u> | <u>44,731</u> | <u>984</u> |
| Charges to Appropriations (Outflows): | | | | |
| General government | 2,000 | 1,500 | 1,385 | 115 |
| Sanitation | <u>45,450</u> | <u>49,319</u> | <u>46,193</u> | <u>3,126</u> |
| Total Charges to Appropriations | <u>47,450</u> | <u>50,819</u> | <u>47,578</u> | <u>3,241</u> |
| Ending Budgetary Fund Balance | <u>\$ (12,822)</u> | <u>\$ (7,072)</u> | <u>\$ (2,847)</u> | <u>\$ 4,225</u> |

Other Supplementary Information

VILLAGE OF CALUMET, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds February 28, 2005

| | Special Revenue Funds | | | | | | Total Nonmajor Governmental Funds |
|--------------------------------------|-----------------------|------------------------------------|----------------------|------------------------------|-----------------------------|-------------------|-----------------------------------|
| | Municipal Street | Public Improvement Replace & Maint | Federal/State Grants | Historic District Commission | Total Special Revenue Funds | Debt Service Fund | |
| Assets | | | | | | | |
| Cash | \$ 5,794 | \$ 23,487 | \$ 3 | \$ 6,001 | \$ 35,285 | \$ 225 | \$ 35,510 |
| Receivables (net): | | | | | | | |
| Current tax levy | 6,414 | | | | 6,414 | | 6,414 |
| Delinquent taxes | 219 | | | | 219 | | 219 |
| Accounts | 5,944 | | | | 5,944 | | 5,944 |
| Due from other funds | | 3 | | | 3 | | 3 |
| Inventory | <u>1,965</u> | | | | <u>1,965</u> | | <u>1,965</u> |
| Total Assets | <u>\$ 20,336</u> | <u>\$ 23,490</u> | <u>\$ 3</u> | <u>\$ 6,001</u> | <u>\$ 49,830</u> | <u>\$ 225</u> | <u>\$ 50,055</u> |
| Liabilities and Fund Balances | | | | | | | |
| Liabilities | | | | | | | |
| Accounts payable | \$ | \$ | \$ | \$ 131 | \$ 131 | \$ | \$ 131 |
| Due to other funds | | | 3 | | 3 | | 3 |
| Deferred revenue – taxes | <u>6,578</u> | | | | <u>6,578</u> | | <u>6,578</u> |
| Total Liabilities | <u>6,578</u> | | <u>3</u> | <u>131</u> | <u>6,712</u> | | <u>6,712</u> |
| Fund Balances | | | | | | | |
| Reserved for: | | | | | | | |
| Inventory | 1,965 | | | | 1,965 | | 1,965 |
| Highways & streets | 11,793 | | | | 11,793 | | 11,793 |
| Debt service | | | | | | 225 | 225 |
| Unreserved | | <u>23,490</u> | | <u>5,870</u> | <u>29,360</u> | | <u>29,360</u> |
| Total Fund Balances | <u>13,758</u> | <u>23,490</u> | | <u>5,870</u> | <u>43,118</u> | <u>225</u> | <u>43,343</u> |
| Total Liabilities and Fund Balances | <u>\$ 20,336</u> | <u>\$ 23,490</u> | <u>\$ 3</u> | <u>\$ 6,001</u> | <u>\$ 49,830</u> | <u>\$ 225</u> | <u>\$ 50,055</u> |

VILLAGE OF CALUMET, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds Year ended February 28, 2005

| | Special Revenue Funds | | | | | | Total Nonmajor Governmental Funds |
|---|-----------------------|------------------------------------|-----------------------|------------------------------|-----------------------------|-------------------|-----------------------------------|
| | Municipal Street | Public Improvement Replace & Maint | Federal/ State Grants | Historic District Commission | Total Special Revenue Funds | Debt Service Fund | |
| Revenues | | | | | | | |
| Taxes | \$ 34,100 | \$ | \$ | \$ | \$ 34,100 | \$ | \$ 34,100 |
| Charges for services | | | | 225 | 225 | | 225 |
| Interest | 181 | 271 | | 57 | 509 | 3 | 512 |
| Other revenues | <u>5,944</u> | | | | <u>5,944</u> | | <u>5,944</u> |
| Total Revenues | <u>40,225</u> | <u>271</u> | | <u>282</u> | <u>40,778</u> | <u>3</u> | <u>40,781</u> |
| Expenditures | | | | | | | |
| Current | | | | | | | |
| General government | 225 | 185 | 290 | 4,212 | 4,912 | 50 | 4,962 |
| Public works | | 3,350 | 3,465 | | 6,815 | | 6,815 |
| Highways & streets | 7,450 | | | | 7,450 | | 7,450 |
| Debt service | | | | | | | |
| Principal | | | | | | 7,981 | 7,981 |
| Interest | | | | | | <u>7,631</u> | <u>7,631</u> |
| Total Expenditures | <u>7,675</u> | <u>3,535</u> | <u>3,755</u> | <u>4,212</u> | <u>19,177</u> | <u>15,662</u> | <u>34,839</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>32,550</u> | <u>(3,264)</u> | <u>(3,755)</u> | <u>(3,930)</u> | <u>21,601</u> | <u>(15,659)</u> | <u>5,942</u> |
| Other Financing Sources (Uses) | | | | | | | |
| Transfers in | | | 3,755 | 3,000 | 6,755 | 15,612 | 22,367 |
| Transfers out | <u>(33,000)</u> | <u>(6,784)</u> | | | <u>(39,784)</u> | | <u>(39,784)</u> |
| Total Other Financing Sources (Uses) | <u>(33,000)</u> | <u>(6,784)</u> | <u>3,755</u> | <u>3,000</u> | <u>(33,029)</u> | <u>15,612</u> | <u>(17,417)</u> |
| Net Change in Fund Balances | (450) | (10,048) | | (930) | (11,428) | (47) | (11,475) |
| Fund Balances — Beginning of year | <u>14,208</u> | <u>33,538</u> | | <u>6,800</u> | <u>54,546</u> | <u>272</u> | <u>54,818</u> |
| Fund Balances – End of year | <u>\$ 13,758</u> | <u>\$ 23,490</u> | <u>\$</u> | <u>\$ 5,870</u> | <u>\$ 43,118</u> | <u>\$ 225</u> | <u>\$ 43,343</u> |

VILLAGE OF CALUMET, MICHIGAN

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Village Council
Village of Calumet, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Village of Calumet, Michigan, as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements and have issued my report thereon dated August 8, 2005. The report on the basic financial statements was qualified because the financial statements do not include the Volunteer Firemen's Fund which should be included in order to conform to accounting principles generally accepted in the United States of America. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Village of Calumet, Michigan's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition, which is described below. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Village of Calumet, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

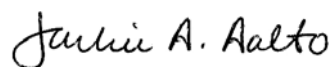
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Calumet, Michigan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to the management of the Village of Calumet, Michigan in a separate letter dated August 8, 2005

This report is intended solely for the information and use of the council membership, management, federal and state awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Jackie A. Aalto, CPA

August 8, 2005

August 26, 2005

To the Village Council
Village of Calumet, Michigan

In planning and performing my audit of the financial statements of the Village of Calumet, Michigan for the year ended February 28, 2005, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. However, I noted a certain matter involving the internal control and its operation that I consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of internal control that, in my judgment, could adversely affect the Village of Calumet, Michigan's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Reportable Condition

1. The size of the Village's accounting and administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Village Council remain involved in the financial affairs of the Village to provide oversight and independent review functions. This would include the signing of all approved council minutes.

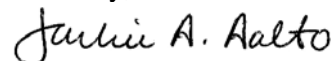
Other Comments and Recommendations

2. The Village has an accumulated fund balance deficit in the Sanitation Fund of \$2,847. The Village failed to file a deficit elimination plan within 90 days after the beginning of the fiscal year as required by State law. However, the Village has increased its charges for this service to eliminate the deficit. I recommend that a deficit elimination plan be filed with the State as required.
3. The financial statements do not include the Volunteer Firemen's Fund. Because the department is not a separate legal entity, all of the financial activity should be reported in the Village's financial statements.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in my audit of the February 28, 2005 financial statements, and this report does not affect my report on those financial statements dated August 8, 2005. I have not considered the internal control since the date of my report.

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Sincerely,



Jackie A. Aalto, CPA